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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 007918

SIPDIS

STATE FOR E, EB/IFD AND EUR/SE
TREASURY FOR OASIA - MILLS AND LEICHTER
NSC FOR BRYZA AND MCKIBBEN

E.O. 12958: DECL: 12/23/2013

TAGS: [EFIN](#) [PGOV](#) [TU](#)

SUBJECT: EX-BRSA CHAIR AKCAKOCA COMMENTS ON BANKING SECTOR, INVESTIGATIONS

(u) Classified by Economic Counselor Scot Marciel. Reasons:
1.5 (b,d)

11. (C) Summary: Ex-BRSA Chairman Engin Akcakoca complained to us recently that the police raid on his house, which uncovered confidential documents he had kept from BRSA, was a politically-motivated set-up. Numerous current and former officials, he said, had called offering support and confiding that they also keep such documents to protect themselves from accusations and investigations. Akcakoca warned that the banking sector remains vulnerable, and will have difficulty remaining profitable in a low-interest rate environment. He reported that Cukurova Group owner Mehmet Karamehmet was negotiating with BRSA to reduce his Pamuk Bank-related debt to the state from just over \$3 billion to \$2 billion, and was also pressing to regain bank ownership rights. On a positive note, Akcakoca expressed support for the proposed merger of Pamuk Bank and Halk Bank, and said new BRSA Chair Tevfik Bilgin appeared well qualified -- if perhaps a bit young -- to take over the job. End Summary.

12. (C) During a recent lunch in Istanbul, ex-BRSA Chairman Engin Akcakoca offered us his thoughts on the investigation into his activities and on the broader banking sector. He began by saying that he had resigned because Deputy Prime Minister Sener -- through an emissary -- had explicitly asked for his resignation in the wake of the Imar Bank scandal. He complained that authorities had raided his house only three days after his resignation, while they had taken weeks to conduct raids on the Uzan family members, who clearly had engaged in massive fraud. Akcakoca said the raids were prompted by an "anonymous tip" claiming that authorities would find Imar Bank records at various addresses, including at his house. They had not found any such documents, but had instead uncovered a number of confidential BRSA documents.

13. (C) Akcakoca claimed the raids were a "set up," since "everyone" keeps such records to protect themselves. He noted that former President Demirel, at least one Supreme Court Justice, and other current and senior officials had called him to express support and had acknowledged that they too keep such records. Even Deputy PM Sener, he added, had publicly defended him for keeping official documents. Akcakoca further complained that the prosecutor assigned to the case was someone he had worked with on the Imar Bank case; unfortunately, Akcakoca had publicly criticized the prosecutor a few weeks earlier for failing to act more assertively against the Uzans.

14. (C) Turning to the banking sector as a whole, Akcakoca warned about continuing vulnerabilities, particularly in the context of rapidly declining interest rates. He argued -- as have others -- that, in the absence of significant corporate lending, banks remain overly reliant for profits on returns from their huge investments in government securities. They will book significant capital gains from these holdings this year, but will be unable to do so next year, given the sharp drop in real interest rates. Noting that many banks already barely meet required capital-adequacy ratios, he warned that any slide into the red could bring serious problems for the sector.

15. (C) Akcakoca noted that the current government now had a majority of its people on the BRSA board and also would appoint supporters to the newly independent SDIF board. As a result, he said, the government will have unprecedented power to "squeeze" bank owners if it so chooses. The GOT already has indicated it will review all loan workouts done through the Istanbul approach, and could -- per Akcakoca -- also review and even cancel existing agreements between SDIF and the owners of failed banks. He noted that Justice Minister Cicek has made clear that he wants to go after at least some of the owners.

16. (C) At the same time, Akcakoca complained, Cukurova Group owner Mehmet Karamehmet -- former owner of Pamuk Bank and Yapi Kredi Bank -- is negotiating with SDIF to reduce his debt obligations. Under the arrangement worked out following BRSA's mid-June 2002 intervention, Karamehmet committed to repaying more than \$3.1 billion over 15 years to SDIF to fill the hole he created in Pamuk Bank's balance sheet. Now, he is proposing paying \$1.9 billion over two years, and also asking to regain his right to own banks (Turkish law prohibits owners of failed banks from owning other banks). Akcakoca acknowledged that SDIF sometimes agreed to 30 percent reductions in debts owed by failed bank owners in return for immediate payment, but pointed out that Karamehmet's proposed deal involved a 42 percent discount without full upfront payment. (Comment; IMF ResRep and others say they also have heard about this proposed deal, but we have not yet been able to verify the details with SDIF. End Comment)

17. (C) On a more positive note, Akcakoca said he thought Tevfik Bilgin, his successor, was qualified, if a bit young. He also expressed support for the proposed Pamuk Bank - Halk Bank merger, saying the two banks would complement each other and that it would be very difficult for SDIF to sell Pamuk Bank to a private buyer.

EDELMAN